

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 L-02 PA-01 PRS-01 USIA-06 /076 W

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R 161801Z DEC 74

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 9194

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E.O. 11652: N/A

TAGS: ECON, EFIN, AR

SUBJ: GOA PROVIDES MORE FLEXIBILITY IN PRICE CONTROL PROGRAM

1. GOA RECENTLY ADOPTED NEW RESOLUTION (NO. 1400 OF DEC 6) WHICH INTRODUCES ADDITIONAL FLEXIBILITY IN PRICE CONTROL PROGRAM. UNDER NEW RESOLUTION, PRIMARY RESPONSIBILITY FOR ESTABLISHING PRICES SHIFTED FROM GOVERNMENT TO PRIVATE COMPANIES - ALBEIT SUBJECT TO DETAILED GOVERNMENT GUIDELINES AND CHECKS. MAJOR POINTS IN NEW RESOLUTION AS FOLLOWS:

2. COMPANIES WILL BE ALLOWED TO RAISE PRICES BASED ON "REAL COSTS" THROUGH OCT 31 PLUS NORMAL PROFIT MARGINS. REAL COSTS ARE THOSE ACCEPTED AS SUCH BY TAX AUTHORITIES. PRICE INCREASES MAY BE IMPLEMENTED FOLLOWING ADOPTION OF "SPECIFIC RESOLUTIONS" CONTAINING DETAILED GUIDELINES FOR EACH SECTOR. THESE "BASIC PRICES" THEN SUPPOSED TO REMAIN IN EFFECT THROUGH JUNE 1975.

3. NOTWITHSTANDING, COMPANIES WILL BE ABLE TO MAKE ADJUSTMENTS TO "BASIC PRICES" AS NECESSARY TO OFFSET COST INCREASES IN PERIOD OCT 31, 1974 - JUNE 1975. HOWEVER, CERTAIN COST INCREASES MAY NOT BE PASSED ALONG INCLUDING FOLLOWING: A) DIRECT AND INDIRECT LABOR COSTS, INCLUDING RECENT AVERAGE 18 PC INCREASE

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UNDER GRAN PARITARIA, AND HIGHER COSTS RESULTING FROM SOCIAL

WELFARE PAYMENTS INCLUDING THOSE UNDER NEW LABOR CONTRACT LAW; B) ANY LOSSES WHICH MAY OCCUR FROM EXPORT OPERATIONS; C) COSTS AND EXPENDITURES NOT ALLOWED UNDER PROFITS TAX (NOTE: THIS APPEARS TO INCLUDE ROYALTY PAYMENTS, SERVICE COMMISSIONS, ETC.) AND D) ANY HIGHER COSTS RESULTING FROM REDUCED LABOR PRODUCTIVITY.

4. A NEW PRICE INFORMATION SERVICE IS CREATED TO RECEIVE DECLARATIONS, REVIEW THEM, AND IMPOSE FINES. TO DETECT UNJUSTIFIED PRICE INCREASES, THE COMMERCE SECRETARIAT WILL MAINTAIN A SPECIAL GROUP OF AUDITORS WHOSE PURPOSE WILL BE TO REVIEW COMPANY COST CALCULATIONS AS NECESSARY.

5. COMMENT: WE ARE ENCOURAGED THAT NEW SYSTEM WILL PRODUCE MORE FLEXIBLE AND REALISTIC PRICING STRUCTURE WITH MUCH LESS RED TAPE. INITIAL REACTION IN BUSINESS COMMUNITY HAS BEEN QUITE GOOD. HOWEVER, REAL FLEXIBILITY OF NEW PROGRAM CANNOT BE FULLY JUDGED UNTIL "SPECIFIC RESOLUTIONS" IMPLEMENTED.
HILL

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